

**AN APPRAISAL OF MALAYSIA-CHINA TRADE
RELATIONS FROM THE MERCANTILIST PERSPECTIVE**

By

SIVASEGARAN A/L NADARAJAN

**Thesis Submitted to the College of Law, Government, and
International Studies, Universiti Utara Malaysia, in the Fulfillment
of the Requirement for the Degree of Master of Arts
(International Relations)**



Kolej Undang-Undang, Kerajaan dan Pengajian Antarabangsa
(College of Law, Government and International Studies)
Universiti Utara Malaysia

PERAKUAN KERJA TESIS / DISERTASI
(Certification of thesis / dissertation)

Kami, yang bertandatangan, memperakukan bahawa
(We, the undersigned, certify that)
SIVASEGARAN A/L NADARAJAN

SARJANA SASTERA

calon untuk Ijazah
(candidate for the degree of)

telah mengemukakan tesis / disertasi yang bertajuk:
(has presented his/her thesis / dissertation of the following title):

"AN APPRAISAL OF MALAYSIA-CHINA TRADE RELATIONS FROM THE MERCANTILIST PERSPECTIVE"

seperti yang tercatat di muka surat tajuk dan kulit tesis / disertasi.
(as it appears on the title page and front cover of the thesis / dissertation).

Bahawa tesis/disertasi tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan, sebagaimana yang ditunjukkan oleh calon dalam ujian lisan yang diadakan pada: **21 APRIL 2010**

*That the said thesis/dissertation is acceptable in form and content and displays a satisfactory knowledge of the field of study as demonstrated by the candidate through an oral examination held on **21 APRIL 2010***

Pengerusi Viva : **PROF. MADYA DR. SITI ALIDA JOHN**
(Chairman for Viva) **ABDULLAH**

Tandatangan
(Signature)

Pemeriksa Luar : **PROF. MADYA DR. NIK ROSNAH WAN**
(External Examiner) **ABDULLAH**

Tandatangan
(Signature)

Pemeriksa Dalam : **PROF. MADYA ABDUL RAHIM ANUAR**
(Internal Examiner)

Tandatangan
(Signature)

Tarikh: **21 APRIL 2010**
(Date)

SIVASEGARAN A/L NADARAJAN

Nama Pelajar
(Name of Student)

:

Tajuk Tesis
(Title of the Thesis)

:

"AN APPRAISAL OF MALAYSIA-CHINA TRADE RELATIONS FROM THE
MERCANTILIST PERSPECTIVE"

Program Pengajian
(Programme of Study)

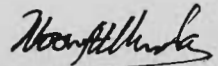
:

SARJANA SASTERA

Nama Penyelia/Penyelia-penyelia

:

Penyelia – Dr. Noor Al-Huda Abdul Karim



Tandatangan
(Signature)

PERMISSION TO USE

In presenting this thesis in fulfillment of the requirement for the degree of Master of Arts (International Relations) from Universiti Utara Malaysia, I grant full permission to the Sultanah Bahiyah Library in using this thesis for any means of purposes in publishing or viewing. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted to my supervisor, Dr. Noor Al-Huda Abdul Karim, or in her absence, by the Dean of Postgraduate and Research, College of Law, Government, and International Studies.

Request for permission to copy or to make other use of materials in this thesis, in whole or in part should be addressed to:

Dean of Postgraduate and Research,
College of Law, Government, and International Studies,
06010, Sintok,
Kedah Darul Aman,
Malaysia.

ABSTRAK

Meskipun kemunculan China sebagai kuasa ekonomi dunia menunjukkan kesan positif dari aspek peningkatan peluang perniagaan, ia juga membawa ancaman terhadap negara-negara lain terutamanya dalam isu imbalan perdagangan. Defisit perdagangan yang dihadapi oleh Malaysia dalam perdagangan dengan China mencerminkan amalan merkantilisme China bagi mencapai surplus perdagangan dengan menerapkan instrumen hambatan non-tarif untuk mengurangkan kelantangan eksport produk Malaysia ke China. Oleh yang demikian, tujuan utama kajian ini adalah untuk menganalisis masalah defisit perdagangan yang dihadapi oleh Malaysia kepada China dari perspektif merkantilisme politik ekonomi antarabangsa di mana terdapat empat jenis hambatan non-tarif yang dipraktis oleh China untuk menyekat kemasukan eksport Malaysia. Ini termasuk, Sistem Sertifikasi Produk Wajib, Pentadbiran Lesen Import Automatik, Standard Pengujian dan Keperluan Pelabelan, dan Keperluan Kuarantin. Dalam menganalisis hambatan non-tarif ini, Analisis Impak Kuantiti telah digunakan. Ini melibatkan analisis terhadap kuantiti eksport produk Malaysia ke China dari tahun 2000-2008 dalam menentukan adakah amalan hambatan non-tarif China mempunyai kesan terhadap eksport Malaysia. Berdasarkan penemuan, hambatan non-tarif China mempunyai kesan negatif pada kuantiti produk yang di eksport oleh Malaysia ke China. Sementara itu, untuk menghadapi masalah hambatan non-tarif China, kajian ini mengesyorkan realisasi Perjanjian Perdagangan Bebas ASEAN-China dan diikuti oleh Perjanjian Perdagangan Bebas dua hala diantara Malaysia dan China.

ABSTRACT

Despite the emergence of China as a world economic power indicates a positive impact of rising trade opportunities, it also provides threat to other countries especially in the trade balances issue. The trade deficit encountered by Malaysia's in its trade with China certainly reflects China's mercantilist practices which are to achieve favorable trade surplus by applying the instrument of non-tariff barriers in reducing the volumes of Malaysia's export to China. Thus, the main objective of this study is to appraise the problem of trade deficit faced by Malaysia to China from the international political economy perspective of mercantilism in which there are four types of non-tariff barriers that being practices by China to limit the entry of Malaysia's export. These include, Compulsory Product Certification System, Automatic Import Licensing Administration, Standard, Testing and Labeling Requirement, and Quarantine Requirement. In analyzing these non-tariff barriers, Quantity Impact Analysis has been used. This involves the analysis on the quantity of Malaysia's export of products to China from year 2000-2008 in order to determine whether China's non-tariff barriers practices have effect on Malaysia's exports. Based on the findings, China's non-tariff barriers possess negative effects on the quantity of Malaysia's exports to China. Meanwhile in order to face this problem of China's non-tariff barriers, this study further recommends the realization of ASEAN-China Free Trade Agreement and followed by bilateral Free Trade Agreement between Malaysia and China.

ACKNOWLEDGEMENTS

In successfully completing this thesis, first and foremost I would like to sincerely thank my supervisor Dr. Noor Al-Huda Abdul Karim. Her commitment in providing assistance for me throughout this thesis work has been remarkable. Furthermore I also would like to express my appreciation towards Dr. Shamsul Khan from University of South Australia for his contribution of advice and knowledge that enables me to further enrich my thesis. Finally, my deepest gratitude goes to my family members for the infinite love and support all over my life; this thesis is merely impossible without them.

TABLE OF CONTENTS

TITLE PAGE.....	i
CERTIFICATION OF THESIS WORK.....	ii
PERMISSION TO USE.....	iv
ABSTRAK.....	v
ABSTRACT	vi
ACKNOWLEDGEMENT	vii
TABLE OF CONTENTS.....	viii
LIST OF TABLES.....	x
LIST OF CHARTS.....	xi
LIST OF ABBREVIATIONS.....	xii
 CHAPTER 1 INTRODUCTION.....	 1
1.1: Problem Statement.....	2
1.2: Research Questions.....	4
1.3: Research Objectives.....	4
1.4: Research Significance.....	4
1.5: Theoretical Framework.....	5
1.5.1: Non-Tariff Barriers.....	7
1.6: Research Methodology and Scope.....	11
1.7: Research Limitation	13
 CHAPTER 2 LITERATURE REVIEW.....	 14
2.1: Previous Studies.....	14
2.2: Government to Government Manipulative Mechanism.....	16
2.3: Market Manipulative Mechanism.....	19
2.4: China's Non-Tariff Barriers Orientation	20
 CHAPTER 3 BACKGROUND OF POLITICAL RELATIONS.....	 25
3.1: The Political Relations.....	25
3.2: Malaysia, China and ASEAN.....	29
 CHAPTER 4 THE TRADE RELATIONS.....	 33
4.1: An Overview (1957-2000).....	33
4.2: Malaysia-China Joint Economic and Trade Commission	35
4.3: Investment.....	37
4.4: Trade Balances (2001-2008).....	39
 CHAPTER 5 RESEARCH FINDINGS ON THE EFFECT OF CHINA'S MERCANTILIST NON-TARIFF BARRIERS PRACTICES ON MALAYSIA'S EXPORT.....	 42
5.1: Compulsory Product Certification System.....	42

5.2: Automatic Import Licensing Administration	57
5.3: Standard, Testing and Labeling Requirements	67
5.4: Quarantine Requirement.....	76
CHAPTER 6 RECOMMENDATION AND CONCLUSION.....	81
6.1: The Realization of ASEAN-China Free Trade Agreement.....	81
6.2: The Prospect of Malaysia-China Free Trade Agreement.....	83
6.3: Conclusion	85
REFERENCES.....	86

LIST OF TABLES

Table 4.1	Malaysia-China Joint Economic and Trade Commission Meetings.....	36
Table 4.2	Bilateral Agreements and Memorandum of Understandings Signed by Malaysia and China.....	37
Table 4.3	Major Chinese Companies Operating in Malaysia.....	38
Table 4.4	Major Malaysian Companies Operating in China.....	38
Table 6.1	ACFTA Agreements Signed by Malaysia and China.....	82

LIST OF CHARTS

Chart 1.1	Malaysia-China Total Trade 1990-2008.....	2
Chart 1.2	Malaysia-China Total Exports, Import and Balance of Trade, 1990-2000 & 2001-2008.....	3
Chart 1.3	Categories of Mercantilist Non-Tariff Barriers.....	8
Chart 4.1	Malaysia and China Trade 1990-2000.....	35
Chart 4.2	Malaysia & China Investment 1999-2008.....	38
Chart 4.3	Malaysia-China Exports, Imports and Balance of Trade 2001-2008.....	40
Chart 4.4	Malaysia-China Export, Import and Balance of Trade 1990-2000.....	41
Chart 5.1	Electric and Electronic Products.....	45
Chart 5.2	Machinery and Machinery Tools.....	50
Chart 5.3	Other Products under CCC Mark.....	54
Chart 5.4	Palm Oil and Vegetable Oil.....	59
Chart 5.5	Aluminum Products.....	60
Chart 5.6	Iron and Steel Products.....	63
Chart 5.7	Paperboard Products.....	64
Chart 5.8	Other Products under AILA.....	66
Chart 5.9	Waste Materials.....	69
Chart 5.10	Furniture Products.....	71
Chart 5.11	Processed Foods.....	73
Chart 5.12	Animals and Plants.....	78

LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
ACFTA	ASEAN China Free Trade Agreement
AQSIQ	Administration of Quality Standards and Quarantine
AILA	Automatic Imports Licensing Administration
ARF	ASEAN Regional Forum
CAR	Central African Republic
CCC Mark	Compulsory Product Certification System
DROC	Democratic Republic of Congo
FOCAC	China-Africa Cooperation Forum
JETC	Joint Economic and Trade Commission
MITI	Ministry of International Trade and Industry
NTBs	Non-Tariff Barriers
QR	Quarantine Requirement
ROC	Republic of Congo
SADC	South African Development Community
STLR	Standard, Testing and Labeling Requirements
SPS	Sanitary and Pyhtosanitary Agreement
FTA	Free Trade Agreement
US	United States
USTR	United States Trade Representatives
WHO	World Health Organization
WTO	World Trade Organization

CHAPTER 1: INTRODUCTION

This study examines China's mercantilist instrument of non-tariff barriers (NTBs) that affects Malaysia's exports to China. In recent years, China's trade practices has been under scrutiny and attracted much criticism especially from the United States and also European countries. They accused China for its unfair and unethical trade protectionism policies that caused billions of losses in trade deficits. This reflects on the foundation of a mercantilist nation that solely focuses towards the maximization of national wealth at the expense of other countries. Therefore mercantilism's concept has always been about trade domination through the accumulation of trade surpluses.

Due to China's superior economic performance, the competition among countries to gain business opportunities with China is intensified. In addition to China's mass population, its business prospects took into consideration on the firm economic growth of average 9 per cent for the past two decades. Even Malaysia was unable to resist the magnetic force and is now keen on enhancing trade relations with China especially since the accession of China into WTO in 2001.

Over the years the trade relations between these two countries grew significantly with average growth rate of 23 per cent from the year 1990-2000 and reached almost 25 per cent in 2008 accounted from total trade of US\$ 190.2 billion (Chart 1.1). Presently, China is Malaysia's fourth major trading partner and export destination for seven successive years since 2001 (MITI, 2008). In 2008, Malaysia's exports to China

The contents of
the thesis is for
internal user
only

REFERENCES

- Abdulai, D.N. (2007). *China's new great leap forward: An emerging China and its impact on ASEAN*. Malaysia: MPH Publishing.
- Balakrishnan. (2006). *Malaysia-China relations: The political challenges* (ICS Working Paper Series 2006-4). Retrieved from <http://www.ics.um.edu.my/publications/2006-4>.
- Balaam, D. N., & Veseth, M. (2005). *Introduction to international political economy*, 3rd ed. Upper Saddle River: Pearson.
- Baylis, J., & Smith, S. (2005). *The Globalization of world politics: An introduction*, 3rd ed. New York: Oxford University Press.
- Bivens, L. J., & Scott, R. E. (2006, September 25). China manipulates its currency-a response is needed. *Economy Policy Institute*. Retrieved from <http://www.epi.org/publication/entry/pm116.html>
- Chwee, K. C. (2007). Multilateralism in China's ASEAN policy: Its evolution, characteristics, and aspirations. *Contemporary Southeast Asia*, 27 (1), 102-123.
- Deardorff, A. V., & Stern, R. M. (1997). Measurement of non-tariff barriers. *OECD Economic Department Working Paper*. 24, 1-117. doi : 10.17871568705648470
- Devadason, E. (2007). *Trends in bilateral trade with China: Implications for Malaysia*. (ICS Working Paper Series 2007-1). Retrieved from <http://www.ics.um.edu.my/publications/2007-1>.
- Eichengreen, B., & Tong, H. (2006). How China is reorganizing world economy. *Journal Of Asian Economic Policy Review*, 12 (2), 73-97.
- Hawkins, W. R. (2005, February 3). *China pursues manifest destiny through mercantilism and imperailsm*. Retrieved from http://emericaeconomicalert.org/view-art.asp?Prod_ID1246.html
- Holslad, J. (2006). China's new mercantilism in Central Afric. *African and Asian Studies*, 5(2), 133-169.
- Ibrahim, A. B. (2005). Malaysian perception of China. *Historia Actual Online*. Retrieved from <http://www.hoal/primavera/1696-2060>

- Kim, S.P. (2004). *The political economy of Mahathir's China policy: Economic cooperation, political and strategic ambivalence*. (IUJ Research Institute Working Paper 2004-6). Retrieved from <http://ci.nii.ac.jp/naid/110006689091/en>
- Lo, C. (2007). *Phantom of the China economic threat: Shadow of the next Asian crisis*. New York: Palgrave Macmillan.
- Loke, W. H. (2007). *Assessing Malaysia's and China's comparative advantage in selected manufacturing goods*. (ICS Working Paper Series 2007-3). Retrieved from www.ics.um.edu.my/publications/2007-3.
- Malaysia External Trade Development Corporation. (2007). *Malaysia's trade performance*. Kuala Lumpur: MATRADE.
- Ministry of International Trade and Industry. (2000). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Ministry of International Trade and Industry. (2001). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Ministry of International Trade and Industry. (2002). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Ministry of International Trade and Industry. (2003). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Ministry of International Trade and Industry. (2004). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Ministry of International Trade and Industry. (2005). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Ministry of International Trade and Industry. (2006). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Ministry of International Trade and Industry. (2007). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Ministry of International Trade and Industry. (2008). *Malaysia international trade and industry report*. Kuala Lumpur: MITI.
- Paulson, H. (2006, August 8). Defender of yuan. *Asia Times*. Retrieved from http://www.Atimes.com/atimes/Global_Economy/HH08Dj01.html

- Sandrey, R., Smit, L., & Fundira, T. (2008). *Non-tariff measures inhibiting South African exports to China and India*. (Tralac Working Paper 2008-6). Retrieved from www.tralac.co.za
- Seah, I. (2009, August 18). Malaysia: A China-Malaysia FTA. *DBS Group Research*. Retrieved from https://www.dbsvresearch.com/research%5Cdb%5Cresearch.../my_2009Aug18.pdf
- Yeoh, E. K., & Ooi, S. M. (2007). *China, Malaysia and ACFTA: FDI, trade and comparative advantage* (ICS Working Paper Series 2007-4). Retrieved from <http://www.ics.um.edu.my/publications/2007-4>.
- Yeoh, E. K., & Devadason, E. (2007). *Emerging trading nations in an integrating world : Global impacts and domestic challenges of China's economic reform* (ICS Working Paper Series 2007-6). Retrieved from <http://www.ics.um.edu.my/publications/2007-6>.
- Yeoh, E. K., & Loh, S. Y. (2009). *China-Malaysia trade relations, China-ASEAN Regional Cooperation and Malaysia's Policy Responses* (ICS Working Paper Series 2009-1). Retrieved from www.ics.um.edu.my/publications/2007-4.
- Yiping, L. (2006). Sino-Malaysia relationship in the post-cold war period (ICS Working Paper Series 2006-6). Retrieved from <http://www.ics.um.edu.my/publication/2006-6>.